

Department of Energy



SOP – Environmental Liabilities

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Classification

This SOP describes processes in the B2C cycle in the General Ledger Management process.

Introduction

A. Purpose

This SOP describes the Environmental Liability Reports in the STARS accounting system and the analysis and reconciliations performed by CF-12 necessary to support the Department's environmental liability balances.

B. Background

CF-12 reported the controls over the reconciliation of operating and capital expenditure reconciliations to environmental liabilities as a material weakness in the third quarter of FY 2006. The material weakness was due to unreconciled balances that resulted in misstatements of environmental liabilities and related nominal account balances on the third quarter FY 2006 financial statements. Corrective action was taken to improve the controls for FY 2006 year-end. This SOP is intended to further improve controls by documenting the procedures/controls used by CF-12 to ensure the accuracy of recording environmental liability adjustments.

This SOP addresses the processes used by CF-12 in recording/analyzing HQs entries for environmental liabilities. These liabilities include the following:

- Allottee 60 – Department-wide contingency estimates for EM and active facilities
- Allottee 99 – Department-wide liabilities for High-level waste and Spent Nuclear Fuel and for Surplus Plutonium

This SOP also addresses processes used by CF-12 to analyze the environmental liabilities recorded by all other allottees. These allottees will have their own local procedures/controls in place for ensuring the accuracy of their environmental liabilities. The CF-12 analysis provides additional analysis at a more summary level to ensure the reasonableness and accuracy of the environmental liabilities at the Departmental level.

Guidance is also issued annually by the Office of Financial Policy regarding requirements for environmental liability estimate changes.

Guidance on the specific accounting entries associated with environmental liabilities is contained in the Unfunded Liabilities Guide at:

<http://www.cfo.doe.gov/cf11/frad/UnfundedLiabilities.pdf>.

This guide describes the following categories used in the financial statement footnote disclosure for environmental liabilities:

- EMF - EM Facilities
- ACF/PLF - Active and Surplus Facilities
- REL - Long Term Stewardship
- HLW - High Level Waste and Spent Nuclear Fuel



- Oth – Other (including Surplus Plutonium, National Petroleum Reserve, and Other Depleted Uranium).

Detailed Procedures

1. Key environmental liability reports in STARS:

- a. Environmental Liabilities Summary Report – All Custom - developed to reconcile the Funded and Unfunded Environmental Cleanup and Disposal Liabilities by allottee and type of liability. The report reconciles the changes between the beginning and ending real liability account (SGL 2995) balances to the current year changes in the nominal accounts (6800 and 579002 transfers) for each environmental liability category/type plus any prior period adjustments.
- b. The EM Operation Expenditure Reconciliation Report (DOE GL Operating Expenditures Reconciliation Reports (Custom) Program Type EM) - reconciles EM current year operating costs to the reduction of the Environmental Cleanup and Disposal Liability which are reflected on the balance sheet. Column 6 (Non Legacy Waste Operating Costs) should contain only non-EM Facilities Costs. Allottees are required to explain all amounts in this column of the report during the third and final quarter of the Fiscal Year. The costs and reduction of the Liability must be recorded each quarter to reflect the correct Liability on the quarterly Financial Statements. Refer to the Unfunded Liabilities Accounting Guide for the correct entries to record the EM operating costs. Allottees should review the program values on the report and notify Marion Hoch of OFCR, marion.hoch@hq.doe.gov of any EM program values that are not part of the selection criteria. The program values will be added to the selection criteria by OFCR.
- c. The EM Capital Expenditure Reconciliation Report- All (Custom) - reconciles EM current year capitalized costs (plant and equipment) to the reduction of the Environmental Cleanup and Disposal Liability which are reflected on the balance sheet. Column 7, (Unreconciled Difference) this column should only include items that do not meet the criteria of legacy waste (i.e. – EM facilities used <50% to address legacy waste). Allottees are required to explain all amounts in this column of the report during the third and final quarter of the Fiscal Year. The costs and reduction of the Liability must be recorded each quarter to reflect the correct Liability on the quarterly Financial Statements. Refer to the Unfunded Liabilities Accounting Guide for the correct entries to record the EM capital costs. Allottees should review the program values on the report and notify Marion Hoch of OFCR, marion.hoch@hq.doe.gov of any EM program values that are not part of the selection criteria. The program values will be added to the selection criteria by OFCR.
- d. The Excess Plutonium Capital Expenditure Reconciliation Report All (Custom) - reconciles adjustments made to the excess plutonium liability



and associated reductions to the legacy waste Mox Fuels and PDCF facilities in Construction Work in Process. Column 5 (Non Legacy Waste Capitalized Costs) should only contain non excess plutonium costs. Allottees are required to explain all amounts in this column of the report during the third and final quarter of the Fiscal Year. The costs and reduction of the Liability are recorded in the third and fourth quarter by OFCR to reflect the correct Liability on the third and final quarter Financial Statements. Refer to the Unfunded Liabilities Accounting Guide for the correct entries to record the EM capital costs. Allottees should review the program values on the report and notify Marion Hoch of OFCR, marion.hoch@hq.doe.gov of any MOX fuel or PDCF facility program values that are not part of the selection criteria. The program values will be added to the selection criteria by OFCR.

- e. Excess Plutonium Operating Expenditure Reconciliation Report (DOE GL Operating Expenditures Reconciliation Reports (Custom) Program Type EP) - reconciles excess plutonium current year operating costs to the reduction of the Environmental Cleanup and Disposal Liability which are reflected on the balance sheet. The reduction of the Liability is prepared by OFCR in the third and fourth quarter to reflect the correct Liability on the third and final Financial Statements. Refer to the Unfunded Liabilities Accounting Guide for the correct entries to record the excess plutonium operating costs. Allottees should review the program values on the report and notify Marion Hoch of OFCR marion.hoch@hq.doe.gov of any MOX fuel or PDCF program values that are not part of the selection criteria. The program values will be added to the selection criteria by OFCR.
- f. REL Operating Expenditure Reconciliation Report (DOE GL Operating Expenditures Reconciliation Reports (Custom) Program Type REL) - reconciles REL current year operating costs to the reduction of the Environmental Cleanup and Disposal Liability which are reflected on the balance sheet. Column 6 (Non Legacy Waste Operating Costs) should contain only non REL costs. Allottees are required to explain all amounts in this column of the report during the third and fourth of the Fiscal Year. The costs and reduction of the Liability must be recorded each quarter to reflect the correct Liability on the quarterly Financial Statements. Refer to the Unfunded Liabilities Accounting Guide for the correct entries to record the REL operating costs. Allottees should review the program values on the report and notify Marion Hoch of OFCR, marion.hoch@hq.doe.gov of any REL program values are not part of the selection criteria. The program values will be added to the selection by OFCR.
- g. Funded Environmental Liability Analysis – reconciles the funded environmental liabilities (SGL 2995F) by fund to the total of the fund types undelivered orders and unobligated balances (resources). The funded liabilities should never be more than the available resources. Allottees should review the liabilities and resources quarterly to be certain the fund has enough resources to cover the funded environmental liability. Allottees are required to explain any negative in the difference column of the report during the third and fourth quarter of the fiscal year.



2. Processes used by CF-12 in recording/analyzing HQs entries for environmental liabilities

NOTE: Please refer to Unfunded Liabilities Accounting Guide dated 09/18/2008 for pro forma accounting entries and supplementary accounting guidance.

- a. Record changes in life cycle baseline cost estimates (HQ Projects only) - The source documents for these entries are provided to OFCR from the Office of Financial Policy. The Office of Environmental Management (EM) and the Office of Legacy Management (LM) provide source documents (i.e. life cycle baselines) to the Office of Financial Policy which makes adjustments based on audit differences, program input, etc. The Office of Financial Policy also puts the program information into a footnote-like format for use by OFCR. Refer to Office of Financial Policy Environmental Liability SOP for details.

Typically, these entries are provided for 3rd quarter financial statements. Many adjustments are usually required through the end of the fiscal year as the auditors proceed with their test work. See pro forma entries in the Unfunded Liabilities Accounting Guide to determine the proper accounting for these adjustments. Entries are done using Manual Direct GL Entries on an ADI Spreadsheet. It is oftentimes necessary to contact the Office of Financial Policy representative to clarify the information in source documents and to ensure that expectations are met with respect to financial statement presentation.

Background on EM Baseline: The life cycle baseline developed by the Office of Environmental Management covers estimates on thousands of contaminated facilities and sites that are linked to the nuclear weapons program. Lifecycle baseline cost information for all EM projects (both Field and HQ) can be obtained on EM's IPABS systems <http://web.em.doe.gov/ipabs/>. A USERID and password will be required to use this system.

Background on LM Baseline: Established December 15, 2003, LM is responsible for the long-term care of legacy liabilities of former nuclear weapons production sites following completion of the environmental management cleanup effort. Programs of a similar nature from the Office of Worker and Community Transition and portions of the Office of Environmental Management have been incorporated into LM.

- b. Record changes to Active Facility Baseline – These changes typically accompany and are included in the source documents above and pro forma entries are essentially the same. The Active Facility baseline is based on engineering estimates that rely on square footage and facility type. The baseline represents non-EM/LM facilities and other structures that will eventually require stabilization, deactivation, decontamination and decommissioning. This estimate is generated by a cost-estimating model that pulls information from the Department's real property system



supplemented by information from the field. This entry is done on behalf of all Field Offices.

- c. Adjust Environmental Liability for Inflation –A portion of the life cycle baseline change may be re-categorized to reflect the impact of inflation from the prior period ending balances. The common inflation factor is to be obtained from the Office of Financial policy annually. To re-categorize part of the baseline change as inflation, multiply the inflation factor by the by beginning balances (i.e. EM and LM baselines) and follow the pro forma entries outlined in the Unfunded Liabilities Accounting Guide. Using the ADI Spreadsheet, ensure that inflation is categorized as either EMF for REL and that the correct program value is used. Note: It will be necessary to adjust current year baseline changes by the amount of inflation on beginning balances so that ending baseline balances match supporting documents.
- d. Adjust Environmental Liability for Changes in Contingency – The contingency range estimates are developed outside the life cycle baseline development process. A Monte Carlo analysis, using Risk Factors provided by EM and LM Program project managers from across the complex, is used to derive the overall contingency range estimates for 1) the EM Baseline; 2) the LM Baseline; and 3) Active Facilities baseline. The Office of Financial Policy provides these figures, which typically accompany the baseline changes, and entries are done in accordance with the Unfunded Liabilities Accounting Guide using an ADI Spreadsheet. Entries for these are typically done for the 3rd Quarter, but adjustments through the end of the year are not uncommon. It should be noted that these entries are done on behalf of the Department although some LM field sites record their own portions of LM contingency.
- e. Reclassify environmental liabilities from unfunded to funded – This entry is based on Status of Obligational Authority Current Year Data Report and the DOE Environmental Liability Report available from the STARS GL Inquiry Responsibility and Request Standard Report menu options. It should be a quarterly entry:
 - 1. Run Status of Obligational Authority Current Year Data report quarterly using program value parameters consistent with the EM Operating and Capital Reports for HQ Allottee 60.
 - 2. Run DOE Environmental Liability Report for HQ Allottee 60.
 - 3. Determine the amount of recorded Funded Liability from step #2 above by examining the report.
 - 4. Determine the actual funding by examining the report from #1 above using the "Ending Uncosted" column.
 - 5. Subtract "Funded Liability" from "Ending Uncosted" to determine funding adjustment and make manual GL accounting entry (ADI Spreadsheet) in accordance with Unfunded Liabilities Accounting Guide.
- f. Reduce the environmental liability for operating and capital expenditures incurred against applicable EM and LM program values – Using the reports cited above under "Detailed Procedures" 1B and 1C, set up an ADI spreadsheet following the pro forma entries outlined in the Unfunded



Liabilities Accounting Guide. These entries should be done on a quarterly basis.

- g. Transfer liabilities between appropriations or organizations – Refer the Unfunded Liabilities Accounting Guide for pro forma entries to be done via an ADI Spreadsheet. These entries may be necessary from time to time in accordance with guidance from the Office of Financial Policy. These are not routine entries.
- h. Complete Footnote Requirements in accordance with Guidance from the Office of Financial Policy – As a final check, run the Environmental Liabilities Summary Report (see “Detailed Procedures” 1A above) for allottee 60 (and allottees that may have been involved in a transfer) and confirm that supporting documents agree with balances stated in the report.
- i. Maintain supporting accounting records in a separate binder for each Fiscal Year - Historically, these documents have received intense audit scrutiny and therefore it's necessary to keep the accounting records neat and orderly.

3. Processes used by CF-12 to analyze the environmental liabilities recorded by all other allottees

- a. Environmental Liability Summary Report – CF-12 compares the beginning balance funded and unfunded real liability account (SGL 2995) to the previous fiscal year ending balances by type of environmental liability (attribute). CF-12 Reconciles the ending balance calculation that includes the beginning balances and the current year net changes for the nominal accounts and transfers (SGL 6800 and 579002) to the ending balance real liability account (SGL 2995). The balances are reconciled by environmental liability type. If the calculated ending balance and the SGL 2995 ending balance do not reconcile, the difference is usually caused by a blank attribute in the environmental liability type in the STARS DFF field or an incorrect liability type.
- b. The EM Operating Expenditure Reconciliation Report – CF-12 compares column 5 (Reduction of Environmental Liability) to the Environmental Liability Summary Report Current Year Change, Current Year Operating Expenditure line for EM Facilities column. The two amounts should tie. CF -12 staff looks at column 6 (Non Legacy Waste Operating Costs), abnormal and large balances are reviewed for reasonableness. In the third and fourth quarter of the Fiscal Year the amounts in this column should be explained in the Financial Disclosure and Footnote documentation that is sent to headquarters. These disclosures are compared to the amounts in column 6.
- c. The EM Capital Expenditure Reconciliation Report – CF-12 compares Column 6 (Reduction to Environmental Liability) to the Environmental Liability Summary Report Current Year Change, Current Year Capital Expenditure line for EM Facilities column. The two amounts should tie. CF-12 staff looks at column 7 (Unreconciled Difference) abnormal and large balances are reviewed for reasonableness. The balances in this column are compared to the balances reported in the previous Fiscal Year. In the third and fourth quarter of the Fiscal Year the amounts in this



column should be explained in the Financial Disclosure and Footnote documentation that is sent to headquarters. These disclosures are compared to the amounts in column 7.

- d. The Excess Plutonium Capital Expenditure Reconciliation Report – CF-12 compares column 6, Reduction of Environmental Liabilities to the Environmental Liability Summary Report Current Year Change, Current Year Capital Expenditure line for Other Facilities column. The two amounts should tie. CF-12 staff looks at the net total in (Unreconciled Differences) abnormal and large balances are reviewed for reasonableness. .
- e. The Excess Plutonium Operating Expenditure Reconciliation Report – CF-12 compares column 5, Reduction of Environmental Liabilities to the Environmental Liability Summary Report Current Year Operating Expenditure for Other Facilities column. The two amounts should tie. Staff reviews the net total in the Non 6 (Non Legacy Wasted Operating Costs) abnormal and large balances are reviewed for reasonableness.
- f. The REL Operating Expenditure Reconciliation Report – CF-12 compares column 5 (Reduction of Environmental Liability) to the Environmental Liability Summary Report Current Year Change, Current Year Operating Expenditure line for REL Facilities column. The two amounts should tie. CF -12 staff looks at column 6 (Non Legacy Waste Operating Costs), abnormal and large balances are reviewed for reasonableness. In the third and fourth quarter of the Fiscal Year the amounts in this column should be explained in the Financial Disclosure and Footnote documentation that is sent to headquarters. These disclosures are compared to the amounts in column 6.



Appendices

A. Definitions	
Acronym	Definition
SOP	Standard Operation Procedure
STARS	Standard Accounting and Reporting System
EM	Environmental Management
CF-12	Office of Financial Control and Reporting
MOX	Mixed Oxide Fuel
PDCF	Plutonium Pit Disassembly and Conversion Facility
DFF	Descriptive Flex Field
OFCR	Office of Financial Control and Reporting
REL	Restructured Environmental Liabilities (Legacy non-EM Environmental Liabilities)



B. Field Point of Contacts for Environmental Liabilities			
Allottee	Name	Phone	E-mail
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